



American Gilsonite Company

Bonanza Minesite
29950 South Bonanza Highway
Bonanza Utah 84008 • Phone (435) 789-1921 • Fax (435) 789-1956

m0470010
cc: John
Paul
Leslie

September 14, 2010

Utah Division of Oil, Gas and Mining
1594 West North Temple Street
Salt Lake City, UT 84116

Att: Paul Baker

Dear Mr. Baker

Please find enclosed a copy of the audited financial statements for American Gilsonite Holding Company and Subsidiaries as of December 31, 2009 and for the period then ended as well as a copy of the internal financial statements for the same entity as of June 30, 2010 and for the period then ended as required by our self-bonding agreement with the Board. Please note that the internal financial statements as of June 30, 2010 and for the period then ended have been prepared by the Company and have not been audited by an independent auditing firm.

You will note that our financial condition continues to be very healthy, our business profitable and we are able to meet all our financial and other obligations timely.

You should also note that the Company will make another installment payment toward the bonding as of September 15, 2010.

If you have any questions, please don't hesitate to give me a call at 435-781-4534.

Best regards,

A handwritten signature in black ink, appearing to read "Douglas R. Maughan".

Douglas R. Maughan, CPA
Chief Financial Officer

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DIV. OF OIL, GAS & MINING

Unaudited



Monthly Reporting Package

As of June 30, 2010 and for the period then ended

American Gilsonite Holding Company and Subsidiaries

Consolidated Balance Sheets

(Unaudited in Thousands)

	June 30	
	2010	2009
	(unaudited)	(unaudited)
Current assets:		
Cash	\$ 2,886	\$ 6,731
Accounts receivable	6,337	2,223
Inventory	5,809	6,032
Income tax receivable	135	1,233
Deferred income tax	191	-
Prepaid and other assets	994	957
Total current assets	<u>16,352</u>	<u>17,176</u>
Property, plant and equipment, net	39,146	29,735
Goodwill	47,278	43,868
Deferred income taxes	697	-
Customer list, net	9,939	10,045
Other assets	1,632	1,928
Total assets	<u>\$ 115,045</u>	<u>\$ 102,752</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 722	413
Accrued expenses	2,385	1,819
Current portion of long term debt - CIT	889	425
Current portion of insurance premium financing	568	485
Income taxes payable	-	-
Other current liabilities	114	71
Unrecognized tax benefit - current	796	-
Total current liabilities	<u>5,475</u>	<u>3,213</u>
Long term liabilities		
Senior Debt	27,756	31,325
Subordinated Debt	14,783	14,783
Deferred tax liabilities	13,552	13,910
Other liabilities	574	358
Unrecognized tax benefit	549	-
Total liabilities	<u>62,689</u>	<u>63,588</u>
Stockholders' equity		
Common stock	-	-
Additional paid in capital	47,305	33,004
Retained earnings	5,051	6,160
Total stockholders' equity	<u>52,356</u>	<u>39,164</u>
Total liabilities and stockholders' equity	<u>\$ 115,045</u>	<u>\$ 102,752</u>

American Gilsonite Holding Company and Subsidiaries

Consolidated Statements of Income

(Unaudited in Thousands)

	Year to date	
	2010	2009
Sales	\$ 25,868	\$ 16,501
Sales adjustments	(84)	(87)
Net sales	25,784	\$ 16,414
Mining	3,861	3,772
Process plant	2,664	2,159
ER plant	949	978
Maintenance	364	374
Technical services	102	117
Health & safety	169	262
Other production costs	18	18
Drilling and exploration	46	109
Environmental compliance	30	31
Current reclamation	4	17
Change in product inventory	(400)	(1,818)
Cost of Sales	7,807	6,020
Gross margin	17,978	10,394
<i>Gross margin %</i>	<i>69.7%</i>	<i>63.3%</i>
Selling general and administrative	2,989	2,890
Operating margin	14,989	7,504
Other income	(31)	(9)
Depreciation and amortization	2,638	2,420
Depletion	181	143
Interest expense	2,217	2,214
Other financing fees	195	190
Management fees	260	250
Exploration expenses	248	
Income taxes	2,288	550
Net income	\$ 6,991	\$ 1,746

American Gilsonite Holding Company and Subsidiaries
Consolidated Statements of Cash Flows

(Unaudited in Thousands)

	Year to date	
	2010	2009
Cash provided by operating activities		
Net income (loss)	\$ 6,991	\$ 1,746
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operations:		
Depreciation and amortization	2,638	2,420
Depletion	181	143
Deferred taxes	(32)	(8)
Amortization of deferred financing costs	332	178
FAS 143 liability accretion	17	12
Changes in operating assets and liabilities, net of effect of acquisitions:		
(Increase) decrease in accounts receivable	(1,792)	4,584
(Increase) decrease in inventory	(838)	(1,920)
(Increase) decrease in prepaid and other assets	(474)	(172)
Increase (decrease) in income taxes payable / receivable	498	(100)
Increase (decrease) in accounts payable	75	(1,136)
Increase (decrease) in accrued liabilities	902	(356)
Increase (decrease) in other liabilities	296	(164)
Net cash provided by (used in) operating activities	<u>8,795</u>	<u>5,226</u>
Cash flows from investing activities:		
Investments in property plant and equipment	(1,612)	(1,129)
Increase (decrease) in investments	(29)	(95)
Net cash provided by (used in) investing activities	<u>(1,641)</u>	<u>(1,224)</u>
Cash flows from financing activities:		
Proceeds from (repayment on) issuance of insurance premium financing note	568	450
Dividend	(10,000)	
Repayments on long-term debt	(505)	
Net cash provided by (used in) financing activities	<u>(9,937)</u>	<u>450</u>
Net change in cash and cash equivalents	\$ (2,783)	\$ 4,452
Cash and cash equivalents at beginning of period	\$ 5,669	\$ 2,279
Cash and cash equivalents at end of period	\$ 2,886	\$ 6,731
Cash interest paid	\$ 1,685	\$ 2,569
Cash taxes paid	\$ 2,385	\$ 607

American Gilsonite Holding Company and Subsidiaries

Consolidated Statements of Stockholders' Equity

(Unaudited in Thousands except shares)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Stockholders' Equity
	Shares	Amount			
Balance - January 1, 2009	65,232	\$ 0	\$ 33,004	\$ 4,414	\$ 37,418
Net income				1,411	1,411
Balance - March 31, 2009	65,232	0	33,004	5,825	38,829
Net income				335	335
Balance - June 30, 2009	65,232	\$ 0	\$ 33,004	\$ 6,160	\$ 39,164
	Common Stock		Additional Paid-in Capital	Retained Earnings	Shareholders' Equity
	Shares	Amount			
Balance - January 1, 2010	78,708	\$ 0	\$ 47,305	\$ 8,060	\$ 55,365
Net income				3,040	3,040
Balance - March 31, 2010	78,708	0	47,305	11,100	58,405
Net income				3,951	3,951
Dividend				(10,000)	(10,000)
Balance - June 30, 2009	78,708	\$ 0	\$ 47,305	\$ 5,051	\$ 52,356

American Gilsonite Holding Company and Subsidiaries

**Consolidated Financial Statements
December 31, 2009 and 2008**

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Report of Independent Auditors

To the Board of Directors and Stockholders
of American Gilsonite Holding Company and Subsidiaries:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of American Gilsonite Holding Company and Subsidiaries (the "Company") at December 31, 2009 and 2008, and the results of their operations and their cash flows for the year ended December 31, 2009, their net income and other data for the period from January 1, 2008 through March 14, 2008 (Predecessor Basis) and the results of their operations and their cash flows for the period from March 15, 2008 through December 31, 2008 (Successor Basis) in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
March 16, 2010

American Gilsonite Holding Company and Subsidiaries
Consolidated Balance Sheet
December 31, 2009 and 2008

Assets	December 31, 2009	December 31, 2008
Current assets:		
Cash and cash equivalents	\$ 5,668,593	\$ 2,279,626
Accounts receivable, net of allowance for uncollectible accounts of \$50,354 and \$23,829 at December 31, 2009 and 2008, respectively	4,545,661	6,807,610
Inventories		
Gilsonite	2,594,036	1,539,390
Materials and supplies	2,376,826	2,569,518
Prepaid expenses and other current assets	519,366	756,223
Income taxes receivable, current-portion	633,325	1,133,305
Deferred income taxes, current-portion	177,825	-
Total current assets	16,515,632	15,085,672
Property, plant, and equipment, net	39,333,837	30,288,204
Goodwill	47,278,471	43,867,704
Intangible assets, net	11,000,518	10,925,299
Other assets	1,892,756	2,042,323
Income taxes receivable, long-term	697,478	-
Total assets	<u>\$ 116,718,692</u>	<u>\$ 102,209,202</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 647,400	\$ 1,549,199
Accrued liabilities	1,301,406	2,441,421
Long-term debt, current-portion	448,825	-
Deferred income taxes, current-portion	-	8,302
Unrecognized tax benefit, current-portion	796,101	-
Total current liabilities	3,193,732	3,998,922
Long-term debt	43,483,884	46,532,654
Deferred income taxes, long-term	13,570,107	13,914,465
Unrecognized tax benefits	549,062	-
Asset retirement obligations	556,966	345,452
Total liabilities	61,353,751	64,791,493
Stockholders' equity		
Common stock, \$.001 par value; 100,000 shares authorized; 78,709 and 65,233 shares issued and outstanding at December 31, 2009 and 2008, respectively	78	65
Additional paid-in capital	47,304,473	33,003,559
Retained earnings	8,060,390	4,414,085
Total stockholders' equity	55,364,941	37,417,709
Total liabilities and stockholders' equity	<u>\$ 116,718,692</u>	<u>\$ 102,209,202</u>

See notes to consolidated financial statements

American Gilsonite Holding Company and Subsidiaries
Consolidated Statements of Income and Comprehensive Income
For the year ended December 31, 2009 and the periods ended March 14,
2008 and December 31, 2008

	Year ended December 31, 2009	Period from March 15, 2008 through December 31, 2008 (Successor Basis)	Period from January 1, 2008 through March 14, 2008 (Predecessor Basis)
Net sales	\$ 32,934,133	\$ 35,883,011	\$ 5,983,814
Cost of goods sold	13,688,607	18,321,756	3,193,222
Gross profit	19,245,526	17,561,255	2,790,592
Operating expenses:			
Selling	1,082,779	1,170,364	708,282
General and administrative	6,004,563	4,070,075	656,271
Depreciation, depletion and amortization	3,846,750	1,907,268	37,243
Transaction expenses	779,940	1,542,861	3,170,873
Total operating expenses	11,714,032	8,690,568	4,572,669
Income (loss) from operations	7,531,494	8,870,687	(1,782,077)
Other income	14,059	8,127	4,817
Interest expense, net	(4,748,987)	(3,858,288)	(6,363)
Income (loss) before income tax (benefit)			
expense	2,796,566	5,020,526	(1,783,623)
Income tax (benefit) expense	(927,352)	606,441	(202,928)
Net income (loss) and net comprehensive income (loss)	\$ 3,723,918	\$ 4,414,085	\$ (1,580,695)

See notes to consolidated financial statements

American Gilsonite Holding Company and Subsidiaries
Consolidated Statement of Stockholders' Equity
Years ended December 31, 2009 and 2008

	Common Stock		Additional Paid-in Capital	Retained Earnings	Stock- holders' Equity
	Shares	Amount			
Balance - March 15, 2008	-	\$ -	\$ -	\$ -	\$ -
Initial capital contribution	64,027		32,003,560	-	32,003,624
Sale of additional shares	1,206		999,999	-	1,000,000
Net income	-		-	4,414,085	4,414,085
Balance - December 31, 2008	65,233		33,003,559	4,414,085	37,417,709
Cumulative effect of adoption of accounting for uncertain tax positions	-		-	(77,613)	(77,613)
Sale of additional shares	13,476		13,471,889	-	13,471,902
Stock-based compensation	-		829,025	-	829,025
Net income	-		-	3,723,918	3,723,918
Balance - December 31, 2009	78,709	\$ -	\$ 47,304,473	\$ 8,060,390	\$ 55,364,941

See notes to consolidated financial statements

American Gilsonite Holding Company and Subsidiaries
Consolidated Statement of Cash Flows
For the year ended December 31, 2009 and the period ended December 31, 2008

	Year Ended December 31, 2009	Period from March 15, 2008 through December 31, 2008
Cash flows from operating activities		
Net income	\$ 3,723,918	\$ 4,414,085
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	5,023,680	4,562,034
Write-off of intangible assets	574,000	-
Accretion of accumulated reclamation obligations	27,634	13,482
Amortization of debt issuance costs	355,824	224,551
Deferred taxes	(2,374,213)	(730,136)
Unrecognized tax benefit	66,507	-
Interest rate swap (gain) loss	65,387	(614,024)
Stock-based compensation	829,025	-
Paid-in-kind interest	-	282,654
Changes in operating assets and liabilities:		
Accounts receivable, net	2,434,588	(2,191,434)
Inventories	(460,729)	(1,041,526)
Prepaid expenses and other current assets	(6,643)	(168,800)
Income taxes receivable	504,766	(943,699)
Accounts payable	(934,671)	208,679
Accrued liabilities	(1,140,015)	1,040,616
Asset retirement obligation	-	35,961
Net cash provided by operating activities	<u>8,689,058</u>	<u>5,092,443</u>
Cash flows used in investing activities		
Purchase of business, net of cash acquired	(13,632,463)	(76,514,508)
Purchase of property, plant and equipment	(2,366,539)	(3,868,758)
Investment in other assets	(173,046)	(68,175)
Net cash used in investing activities	<u>(16,172,048)</u>	<u>(80,451,441)</u>
Cash flow used in financing activities		
Proceeds from capital contributions	13,471,902	33,003,624
Payments for debt issuance costs	-	(1,615,000)
Proceeds from acquisition indebtedness	-	48,500,000
Payments on acquisition indebtedness	(2,599,945)	(2,250,000)
Net cash used in financing activities	<u>10,871,957</u>	<u>77,638,624</u>
Net increase in cash and cash equivalents	<u>3,388,967</u>	<u>2,279,626</u>
Cash and cash equivalents		
Beginning of period	2,279,626	-
End of period	<u>\$ 5,668,593</u>	<u>\$ 2,279,626</u>
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	<u>\$ 4,353,295</u>	<u>\$ 3,240,399</u>
Cash paid during the period for taxes	<u>\$ 874,586</u>	<u>\$ 2,286,532</u>
Supplemental disclosure of non-cash investing and financing activities:		
Changes in American Gilsonite Company purchase price	<u>\$ 243,500</u>	<u>\$ -</u>

See notes to consolidated financial statements

American Gilsonite Holding Company and Subsidiaries

Notes to Consolidated Financial Statements

For the year ended December 31, 2009 and the period ended December 31, 2008

1. Description of the Business

American Gilsonite Holding Company was organized under the laws of the State of Delaware on January 17, 2008. The Company is owned by AGC (Delaware), LP and AGC/PEP, LLC. Gilsonite Acquisition Corp. was organized under the laws of the State of Oklahoma on January 28, 2008 and was a wholly owned subsidiary of American Gilsonite Holding Company. Lexco Acquisition Corp. (LAC) was organized under the laws of the State of Delaware on July 20, 2009 and is a wholly owned subsidiary of American Gilsonite Holding Company. American Gilsonite Company (AGC) was organized as a corporation under the laws of the State of Oklahoma on October 18, 1988. DPC Products, Inc. (DPC), a wholly owned subsidiary of AGC, was organized as a corporation under the laws of the State of Delaware on June 6, 2002.

On March 14, 2008, Gilsonite Acquisition Corp. acquired all of the outstanding shares of AGC and the two companies were merged into AGC (Note 3). On August 12, 2009, Lexco Acquisition Corp. acquired certain assets and liabilities of Lexco, Inc., a Utah corporation (Note 3). American Gilsonite Holding Company and its subsidiaries are collectively referred to as (the "Company").

The Company is a supplier of Gilsonite resin ("Gilsonite") and its operations are based in Utah. Gilsonite is a naturally occurring hydrocarbon resin found in western Colorado and eastern Utah. It is primarily used in printing inks, foundry sands, oil and gas well drilling muds, oil well cements, asphalts, building materials, paints and protective coatings. Additionally, the Company produces two unique products at its solvent extraction plant: one is a low molecular weight fraction of Gilsonite labeled Environmental Resin 125 and the other is a high molecular weight fraction of Gilsonite labeled Insoluble Resin 200.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

The American Gilsonite Company acquisition was accounted for as a purchase transaction (Note 3). As a result, the assets and liabilities of American Gilsonite Holding Company were recorded based on their fair values as of March 15, 2008. The consolidated balance sheet of the Company as of December 31, 2008 and the results of operations and cash flows for the period from March 15, 2008 to December 31, 2008 reflect the purchase accounting adjustments resulting from the American Gilsonite Company acquisition ("Successor Basis"). The results of operations for the period from January 1, 2008 to March 14, 2008 represent the historical financial statements of American Gilsonite Company ("Predecessor Basis").

The acquisition of certain assets and liabilities of Lexco, Inc. was accounted for as a purchase transaction (Note 3). As a result, the assets and liabilities purchased were recorded based on their fair values as of August 13, 2009. The consolidated balance sheet of the Company as of December 31, 2009 and the results of operations and cash flows for the period then ended reflect the purchase accounting adjustments resulting from the acquisition of certain assets and liabilities of Lexco, Inc.

American Gilsonite Holding Company and Subsidiaries

Notes to Consolidated Financial Statements

For the year ended December 31, 2009 and the period ended December 31, 2008

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of American Gilsonite Holding Company and its wholly owned subsidiaries, LAC, AGC and DPC. All significant intercompany accounts and transactions between the Company and its subsidiaries have been eliminated.

Use of Estimates in Preparing Consolidated Financial Statements

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities and reported amounts of revenues and expenses. Actual amounts could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to determining the allowance for accounts receivable, inventory valuation, deferred income taxes, and determining the carrying value of asset retirement obligations. Management believes that the allowances and reserves are adequate. While management uses available information to recognize the allowance and reserves, future additions to the allowances may be necessary based on changes in economic conditions.

Sales

The Company's customer base is located principally in the United States, Asia, and Europe. Sales to both foreign and domestic customers are recognized upon delivery to the title transfer point as defined in the terms of sale, which is primarily the Company's shipping dock.

The Company's shipping terms are primarily FOB shipping point. Upon shipment of goods, title, responsibility, and risk of loss transfer to the customer and recognition of sale occurs.

Cash and Cash Equivalents

The Company considers all short-term investments with a remaining maturity of three months or less at the time of acquisition to be cash equivalents.

Accounts Receivable

Accounts receivable are carried at original invoice amount less estimates for doubtful accounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventories

The Company uses a first-in, first-out weighted-average cost method for inventories. Gilsonite inventories are presented net of reserves. Inventories anticipated to be sold beyond the next fiscal year are classified as long-term. Long-term inventories of \$14,093 and \$16,800 at December 31, 2009 and December 31, 2008, respectively, are included in other assets in the accompanying consolidated balance sheet.

American Gilsonite Holding Company and Subsidiaries
Notes to Consolidated Financial Statements
For the year ended December 31, 2009 and the period ended December 31, 2008

Property, Plant and Equipment

Property, plant, and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 3 - 7 years for equipment, 15 years for land improvements and building improvements and 30 years for buildings. Mine development and mine reserves are depleted using the units of production method based on estimated proven and probable reserves as determined by independent engineers. Routine maintenance and repairs are charged to expense when incurred.

Depreciation, depletion and amortization expense for the year ended December 31, 2009 and for the periods ended March 14, 2008 and December 31, 2008 was \$3,130,302, \$138,497 and \$3,407,333, respectively.

Goodwill

The excess of the purchase price over the fair market value of assets acquired and liabilities assumed in a business combination is classified as goodwill. The Company does not amortize goodwill, but performs an impairment test of the carrying value at least annually. When evaluating whether goodwill is impaired, the Company compares the fair value of the Company's net equity to its carrying amount. If the carrying amount exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss is recognized when the carrying amount of goodwill exceeds its implied fair value. The Company evaluated its goodwill as of December 31, 2009 and December 31, 2008 and determined that no impairment charge should be recorded.

Intangible Assets

Intangible assets consist of customer relationships and a covenant not to compete and are stated at cost less accumulated amortization. Amortization is recognized on a straight-line basis over an estimated useful life of between 5 and 7 years.

Amortization expense for the year ended December 31, 2009 and the periods ended December 31, 2008 and March 14, 2008 was \$1,864,781, \$1,154,701 and \$0, respectively.

During the year ended December 31, 2009, \$574,000 was written off due to duplicate customer relationships in connection with an acquisition (Note 3).

Debt Issuance Costs

Debt issuance costs of \$1,615,000, a component of other assets, incurred in relation to acquisition indebtedness are amortized over the terms of the respective debt instruments, which range from 4-5 years from the debt inception date. Debt issuance costs are amortized using the straight-line method which approximates the effective interest method. Amortization expense of \$355,824 and \$224,551 are included in interest expense in the accompanying consolidated statement of operations for the year ended December 31, 2009 and the period ended December 31, 2008, respectively.

Reclamation

Pursuant to the 1975 "Mined Land Reclamation Act," the Company is liable for reclamation upon abandonment of all sites operated subsequent to 1975. The Company has "Mined Land Reclamation Act" bonds to satisfy the current state and federal requirements. At December 31, 2009 and December 31, 2008, other assets included \$651,223 and \$326,471, respectively, of cash and treasury notes restricted to satisfy the bond requirements. The Company expenses current reclamation costs and accrues estimated final reclamation costs (Note 8).

American Gilsonite Holding Company and Subsidiaries

Notes to Consolidated Financial Statements

For the year ended December 31, 2009 and the period ended December 31, 2008

Shipping and Handling Costs

The Company accounts for shipping and handling costs as revenue and cost of goods sold. A total of \$509,655, \$197,087 and \$41,480 was recorded in shipping and handling revenue and cost of goods sold expense for the year ended December 31, 2009 and for the period ending December 31, 2008 and March 14, 2008, respectively. Shipping and handling revenue and expense are included in the consolidated statements of income under the captions "Net sales" and "Costs of goods sold," respectively.

Income Taxes

The Company utilizes the asset and liability approach for financial accounting and reporting of income taxes. Deferred income taxes are provided for temporary differences in the basis of assets and liabilities as reported for financial statement purposes and income tax purposes.

Long-Lived Assets

The Company reviews long-lived assets for impairment. The Company recognizes impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. An impairment would be recognized in the amount by which the recorded value of the asset exceeds the fair value of the asset, measured by the quoted market price of an asset or an estimate based on the best information available in the circumstances. There were no such losses recognized during the year ended December 31, 2009 and the periods ending December 31, 2008 and March 14, 2008.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of accounts receivable. In the normal course of business, the Company provides credit terms of net 30 to its customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which, when realized, have been within the range of management's expectations. Generally, collateral is not required for the extension of credit.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk for cash and cash equivalents.

Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, receivables, payables, Treasury Notes, an interest rate swap and long-term debt. The fair value of the Treasury Notes and interest rate swap have been determined using available market information and interest rates as of December 31, 2009 and 2008. The recorded value of the other financial instruments approximates their fair value as receivables and payables are near term and the interest rates on long-term debt approximate current market rates.

American Gilsonite Holding Company and Subsidiaries

Notes to Consolidated Financial Statements

For the year ended December 31, 2009 and the period ended December 31, 2008

Derivative Instruments

All derivatives, whether designated in hedging relationships or not, are recorded in the balance sheet at fair value. If the derivative is designated and qualifies as a fair value hedge, the changes in the fair value of the derivative and of the underlying host item are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is recorded in other comprehensive earnings and is recognized in the statement of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings.

In order to mitigate the cash flow risk associated with interest payments related to certain variable rate debt (Note 6), the Company entered into an interest rate swap agreement in April 2008. Through the year ended December 31, 2009 and the period ending December 31, 2008, the Company did not meet the designation criteria in order to account for these contracts as a hedge and accordingly, recorded the change in fair value of the interest rate swap agreement in interest expense in its consolidated statements of income and comprehensive income.

Recent Accounting Pronouncements

In December 2009, the FASB issued an accounting standards update that changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an ability to direct the activities of the entity that most significantly impact the entity's economic performance and whether the entity has an obligation to absorb losses. This guidance requires a company to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. American Gilsonite will adopt this guidance effective January 1, 2010. The adoption will have no impact on American Gilsonite's consolidated results of operations, financial position or cash flows.

In January 2010, the FASB issued an accounting standards update that provides for new disclosure requirements related to fair value measurements. New requirements include the separate disclosure of significant transfers in and out of Levels 1 and 2 and the reasons for the transfers. In addition, the Level 3 reconciliation of fair value measurements using significant unobservable inputs should include gross rather than net information about purchases, sales, issuances and settlements. The update clarified existing disclosure requirements for the level of disaggregation and inputs and valuations techniques. This guidance is effective January 1, 2010 except for the requirement to provide gross Level 3 activity which will be effective January 1, 2011. Since the guidance impacts disclosures only, the adoption will have no impact on American Gilsonite's consolidated results of operations, financial position or cash flows.

American Gilsonite Holding Company and Subsidiaries

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For the year ended December 31, 2009 and the period ended December 31, 2008

3. Acquisitions

On August 12, 2009, the Lexco Acquisition Corp. acquired certain assets and liabilities of Lexco, Inc. at a net acquisition value of \$13,871,901 including cash acquired of \$239,438.

The acquisition of Lexco, Inc. was financed through the sale of 13,476 shares of the Company's stock to existing shareholders for proceeds of \$13,471,902 and cash from the Company. These amounts were used to fund the net purchase price of \$13,871,901 and transaction costs of \$779,940. The transaction costs were recorded as an expense during 2009.

The acquisition was accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the acquired assets and liabilities as set forth in the following table:

Cash	\$ 239,438
Accounts receivable	172,639
Inventories	398,518
Property, plant & equipment	9,809,397
Intangible assets	2,514,000
Goodwill	3,167,266
Other long-term assets	129,902
Accounts payable	(32,872)
Asset retirement obligation	(183,880)
Deferred income tax liability	(2,342,507)
Net assets acquired	<u>\$ 13,871,901</u>

On March 14, 2008, the Gilsonite Acquisition Corp. acquired all of the outstanding common stock of American Gilsonite Company at a net acquisition value of \$78,888,624, including cash acquired of \$2,374,116. On that date, Gilsonite Acquisition Corp. was merged into American Gilsonite Company.

The American Gilsonite Company acquisition was financed through the following sources:

Equity contribution of cash, including transaction costs of \$3,423,608	\$ 32,003,624
Senior debt	34,000,000
Subordinated debt	14,500,000
Debt issuance costs	(1,615,000)
Net acquisition value	<u>\$ 78,888,624</u>

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The acquisition was accounted for under the purchase method of accounting. Accordingly, the purchase price was allocated to the acquired assets and liabilities as set forth in the following table:

Cash	\$ 2,374,116
Accounts receivable	4,616,176
Inventories	3,066,709
Income taxes receivable	189,606
Prepaid expenses and other assets	260,196
Property, plant and equipment	29,826,779
Intangible assets	12,080,000
Goodwill	43,867,704
Other long-term assets	297,575
Accounts payable	(1,340,520)
Accrued expenses	(1,400,805)
Deferred income tax liability	(14,652,903)
Asset retirement obligation	(296,009)
Net assets acquired	<u>\$ 78,888,624</u>

During 2009, the purchase accounting for the American Gilsonite Company acquisition was adjusted to account for additional transaction fees incurred. This resulted in a reclassification of \$243,500 from other assets to goodwill on the balance sheet as of December 31, 2009.

4. Property, Plant and Equipment

At December 31, 2009 and 2008, property, plant and equipment is summarized as follows:

	December 31, 2009	December 31, 2008
Plant	\$ 2,663,160	\$ 2,067,169
Equipment	6,946,028	5,022,211
Land and mineral reserves	21,157,507	15,055,000
Mine development costs	15,104,778	11,551,157
Total property, plant, and equipment	45,871,473	33,695,537
Less accumulated depreciation, depletion, and amortization	(6,537,636)	(3,407,333)
	<u>\$ 39,333,837</u>	<u>\$ 30,288,204</u>

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For the year ended December 31, 2009 and the period ended December 31, 2008

5. Intangible Assets

At December 31, 2009 and 2008, intangible assets consist of the following:

	December 31, 2009	December 31, 2008
Customer relationships	\$ 13,970,000	\$ 12,080,000
Covenant not to compete	50,000	-
	14,020,000	12,080,000
Less accumulated amortization	(3,019,482)	(1,154,701)
	<u>\$ 11,000,518</u>	<u>\$ 10,925,299</u>

Future amortization of intangible assets is as follows:

<u>Years Ending December 31,</u>	
2010	\$ 2,039,779
2011	2,039,779
2012	2,039,779
2013	2,039,779
2014	2,036,029
Thereafter	805,373

During the year ended December 31, 2009, \$2,464,000 of customer relationship intangibles were acquired in an acquisition (Note 3) of which \$574,000 of duplicate customer relationships were written off.

6. Long-term Debt

At December 31, 2009 and 2008, long-term debt consisted of the following:

	December 31, 2009	December 31, 2008
Long-term debt, due 2012, interest rate is a base rate of prime rate or LIBOR, at the Company's option, plus a variable margin. Margin determined by senior debt ratio, measured periodically. Debt is collateralized by all the assets of the Company.	\$ 29,150,000	\$ 31,750,000
Senior subordinated long-term debt, due 2013, interest rate is 15%. Debt is collateralized by all the assets of the Company. Debt is with a related party.	14,782,709	14,782,654
Total long-term debt	43,932,709	46,532,654
Less current portion	(448,825)	-
Total long-term debt, less current portion	<u>\$ 43,483,884</u>	<u>\$ 46,532,654</u>

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For the year ended December 31, 2009 and the period ended December 31, 2008

Under the long-term debt agreements, the Company is subject to certain restrictive covenants, including a maximum leverage ratio, a maximum senior leverage ratio, a gross senior leverage ratio, a minimum fixed charge coverage ratio, and a maximum capital expenditure covenant. The Company was in compliance with these covenants at December 31, 2009.

The Company has a line of credit with financial institutions. The line of credit permits borrowings up to \$6,000,000. The line of credit is collateralized by the assets of the Company. The line of credit matures in September 2012 and has an interest rate of prime plus a margin based on the Consolidated Senior Debt Ratio, as calculated quarterly (6% at December 31, 2009 and 7.25% at December 31, 2008). There was no outstanding balance under the line of credit at December 31, 2009 or 2008. The credit agreement contains certain specific financial ratios, restrictions on capital expenditures, and restrictions on additional indebtedness of the Company. The Company was in compliance with these covenants at December 31, 2009.

At December 31, 2009, the aggregate maturities of long-term debt are as follows:

Years Ending December 31,

2010	\$ 448,825
2011	1,937,034
2012	26,764,141
2013	14,782,709
2014	-
	<u>\$ 43,932,709</u>

In 2008, the Company entered into an interest-rate swap agreement to manage its exposure to changes in interest rates. The swap agreement has a notional principal amount of \$12,750,000, swaps a variable interest rate tied to LIBOR to a fixed interest rate of 3.675% and terminates on April 30, 2011. The fair value of the swap agreement was \$548,637 at December 31, 2009. The Company has recorded a \$65,387 loss and \$614,024 gain related to the fair value of the interest rate swap agreement in interest expense for the year ended December 31, 2009 and the period ended December 31, 2008, respectively.

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7. Income taxes

The provision (benefit) for income tax expense for the year ended December 31, 2009 and the periods ended December 31, 2008 and March 14, 2008, consists of the following:

	Year ended December 31, 2009	Period from March 15, 2008 through December 31, 2008 (Successor Basis)	Period from January 1, 2008 through March 14, 2008 (Predecessor Basis)
Current:			
Federal	\$ 1,221,212	\$ 1,127,280	\$ (219,960)
State	159,142	209,297	(36,876)
Total current	<u>1,380,354</u>	<u>1,336,577</u>	<u>(256,836)</u>
Deferred:			
Federal	(2,041,650)	(693,004)	50,208
State	(266,056)	(37,132)	3,700
Total deferred	<u>(2,307,706)</u>	<u>(730,136)</u>	<u>53,908</u>
Total income tax (benefit) expense	<u>\$ (927,352)</u>	<u>\$ 606,441</u>	<u>\$ (202,928)</u>

For the year ended December 31, 2009 and the periods ended December 31, 2008 and March 14, 2008, the differences between the effective tax rates and the federal statutory rate of 34% were as follows:

	Period from January 1, 2009 through Year Ended December 31, 2009	Period from March 15, 2008 through December 31, 2008 (Successor Basis)	Period from January 1, 2008 through March 14, 2008 (Predecessor Basis)
Federal income tax expense			
at federal statutory rate of 34%	\$ 950,832	\$ 1,733,563	\$ (606,418)
State income tax expense			
(net federal benefit)	(70,788)	61,457	(33,176)
Decrease in taxes resulting from:			
Depletion	(1,450,131)	(1,107,900)	(200,189)
Domestic production deduction	(49,850)	(75,239)	-
Non deductible expenses	5,924	5,012	956
Other	(313,339)	(10,452)	635,899
Total tax (benefit) expense	<u>\$ (927,352)</u>	<u>\$ 606,441</u>	<u>\$ (202,928)</u>

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For the year ended December 31, 2009 and the period ended December 31, 2008

Net deferred tax assets and liabilities at the year ended December 31, 2009 and 2008, consisted of the following temporary differences and carryforward items:

	December 31, 2009	December 31, 2008
Accrued bonus and commission accrual	\$ 159,747	\$ 30,356
Allowance for doubtful accounts	19,351	8,998
Accrued vacation	44,856	16,845
Asset retirement obligation	21,014	7,253
AMT credit carryforward	1,602,415	-
Stock-based compensation	318,602	-
Uncertain tax positions	503,565	-
Other	271,407	(888)
Deferred tax assets	2,940,957	62,564
State taxes	-	(1,698)
Prepays	(46,127)	(62,803)
Mine development costs	(3,789,696)	(2,970,023)
Mineral rights depletion	(7,903,822)	(5,562,061)
Depreciation and amortization	(1,270,611)	(1,263,353)
Intangible assets	(3,322,983)	(4,125,393)
Deferred tax liabilities	(16,333,239)	(13,985,331)
Net deferred tax liability	<u>(13,392,282)</u>	<u>(13,922,767)</u>

Effective January 1, 2009, the Company adopted authoritative guidance related to the accounting for uncertain tax positions. In connection with the adoption, the Company recorded a liability of \$1,278,656 for its pre-existing uncertain tax positions, offset by a deferred tax asset associated with the liability of \$503,565 and a long-term receivable of \$697,478. The net \$77,613 difference between these amounts was recorded as a transition adjustment, a component of retained earnings, upon adoption. Included in the liability was \$77,225 in accrued interest and penalties. The long-term receivable relates to an amount that the Company believes it could recover from the former owners if certain portions of the uncertain tax position liability are not resolved in the Company's favor related to its 2006 tax audit, which is currently in appeals. A general escrow account with a balance in excess of the long-term receivable exists. The Company accounts for interest expense and penalties for uncertain tax positions as part of the income tax provision.

During the year ended December 31, 2009, the Company increased the liability for uncertain tax positions by \$66,507, related to interest expense and penalties. During 2009, there was no change in the liability balance related to the lapse of applicable statutes of limitation and no new uncertain tax positions were identified. The total outstanding balance for liabilities related to uncertain tax positions as of December 31, 2009 was \$1,345,163.

The Company does not anticipate that uncertain tax positions will significantly increase or decrease within 12 months of the reporting date.

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Notes to Consolidated Financial Statements
For the year ended December 31, 2009 and the period ended December 31, 2008

8. Asset Retirement Obligations

The Company accounts for future costs of dismantling, restoring and reclaiming mining properties and facilities as asset retirement obligations. The fair value of asset retirement obligations is recorded as a liability when assets are placed in service. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities are accreted for the change in their present value and the initial capitalized costs are depreciated over the useful lives of the related assets. The change in asset retirement obligation from March 15, 2008 to December 31, 2009 is as follows:

Beginning balance at March 15, 2008	\$	-
Balance as of acquisition date		296,009
Increase in obligation		35,961
Accretion expense		13,482
Ending balance at December 31, 2008		345,452
Obligation acquired in Lexco acquisition (Note 3)		183,880
Accretion expense		27,634
Ending balance at December 31, 2009	\$	556,966

Accretion expense for the period ended March 14, 2008 was \$5,636.

9. Financial Instruments

The Company records all financial instruments at fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market assuming an orderly transaction between market participants. Established markets (observable inputs) are the preferred source of fair value to be followed by the Company's assumptions of fair value based on hypothetical transactions (unobservable inputs) in the absence of observable market inputs.

Based upon the above, the following fair value hierarchy was created:

- Level 1 -- Quoted market prices for identical instruments in active markets,
- Level 2 -- Quoted prices for similar instruments in active markets, as well as quoted prices for identical or similar instruments in markets that are not considered active, and
- Level 3 -- Unobservable inputs developed by the Company using estimates and assumptions reflective of those that would be utilized by a market participant

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Quantitative disclosures about the fair value of the Company's financial instruments are as follows:

Description	December 31, 2009	Fair Value Measurements at December 31, 2009		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap	\$ 548,637	\$ -	\$ 548,637	\$ -
Treasury note	306,125	306,125	-	-

At December 31, 2009, the fair value of the interest rate swap was \$548,637. The amount was included in other assets. The determination of fair value is based on the net present value of all estimated future settlements using future yield curves. Treasury Notes are recorded in other assets and the fair values were based on U.S. Treasury Note rates.

10. Stock-Based Compensation

Option Plan

On January 6, 2009 the Company established its Stock Option Plan (the "Plan") which provides for the granting of stock options to employees and consultants of the Company. Options granted under the Plan may be either incentive stock options ("ISOs") or nonqualified stock options ("NSOs"). ISOs may be granted only to Company employees (including officers and directors who are also employees). NSOs may be granted to Company employees and consultants. Options under the Plan may be granted for periods of up to 10 years. All options issued to date have had a 10-year life. The exercise price of an ISO and NSO granted to a 10% shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant, respectively, as determined by the Board of Directors. As of December 31, 2009 the Company has reserved 7,114 shares of common stock for issuance under the Plan.

Stock Option Activity

Activity under the Plan is set forth below:

	Shares Available for Grant	Outstanding Options	
		Number of Shares	Weighted Average Exercise Price
Shares reserved at plan inception	7,114	-	-
Options granted	(4,680)	4,680	\$500
Balance, December 31, 2009	2,434	4,680	\$500

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During the year ended December 31, 2009, American Gilsonite Holding Company granted stock options to employees to purchase 4,680 shares of common stock with a weighted-average grant date fair value of \$650 per share. Stock-based compensation expense recognized during the year ended December 31, 2009 includes compensation expense for stock-based awards granted to employees based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R) of \$829,025. As of December 31, 2009, there were total unrecognized compensation costs of \$2,213,388 related to these stock options. These unrecognized compensation costs are expected to be recognized over the remaining period of approximately 2.5 years.

The Company estimated the fair value of the stock options using the Black-Scholes option valuation model. The fair value of the stock options is being amortized on a straight-line basis over the requisite service period of the awards. The fair value of the stock options was estimated using the following weighted-average assumptions:

Year Ended December 31, 2009

Expected term	3.5 years
Expected volatility	65%
Risk free interest rate	1.65%
Dividend yield	0%

The expected term of the stock options represents the weighted-average period the stock options are expected to remain outstanding and is based on the vesting term and contractual terms. The expected stock price volatility assumption was determined by examining the historical volatilities for industry peers, as American Gilsonite Holding Company did not have any trading history for its common stock. The Company will continue to analyze the historical stock price, volatility and expected term assumptions as more historical data for the American Gilsonite Holding Company common stock becomes available. The risk-free rate assumption is based on the U.S. Treasury instruments whose term was consistent with the expected term of the Company's stock options. The expected dividend assumption is based on the Company's history and expectation of dividend payouts.

In addition, it is required that forfeitures are estimated at the time of the grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those of estimates.

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11. Commitments and Contingencies

Operating Leases

The Company has noncancelable operating leases for office equipment and office space. The future minimum lease obligations for these operating leases as of December 31, 2009, are as follows:

<u>Years Ending December 31,</u>	
2010	\$ 266,092
2011	200,677
2012	756
2013	-
2014 and beyond	-
	<hr/>
	\$ 467,525

Rent expense for the year ended December 31, 2009 and the periods ended December 31, 2008 and March 14, 2008, was \$301,537, \$129,889 and \$8,555 respectively.

Litigation

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of Company management, the ultimate liability with respect to these proceedings and claims, will not have a material adverse effect upon the Company's financial position or results of operations.

12. Retirement 401(K) Plan

The Company sponsors a 401(k) retirement plan for its employees whereby qualified employees may elect to defer compensation and contribute it to the plan. The Company matches 100% of employee contributions up to 2.5% of gross wages. The Company's contribution for the year ended December 31, 2009 and the periods ended December 31, 2008 and March 14, 2008 totaled \$28,916, \$54,519 and \$14,605, respectively.

13. Related Party Transactions

The Company has a Management and Advisory Services Agreement with Palladium Capital Management III, LLC (Palladium) whereby Palladium provides management and advisory services to the Company. Palladium Equity Partners III, LP has a limited partnership share in AGC (Delaware), LP. The Company also has a Management and Advisory Services Agreement with Prince Minerals Inc. (Prince), an affiliate of Palladium Capital Management, LLC, whereby Prince provides management and advisory services to the Company. Total advisory services payments to these two affiliated entities were \$750,000 for the year ended December 31, 2009 and \$672,075 for the period ended December 31, 2008. In connection with the acquisition of American Gilsonite Company (Note 3), \$1,500,000 was paid to Palladium for advisory services. The payment is reflected as a transaction expense in the Successor Basis period.

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The Company has a Senior Subordinated Loan and Guaranty Agreement with Prospect Capital Corporation (Prospect) which owns all the shares of AGC/PEP, LLC. The debt carries an interest rate of 15%. Total interest payments to Prospect were \$2,248,426 and \$1,507,794 for the year ended December 31, 2009 and the period ended December 31, 2008, respectively.

14. Subsequent Events

The Company has evaluated subsequent events in accordance with generally accepted accounting principles through March 16, 2010. The Company has not identified any events that require disclosure.